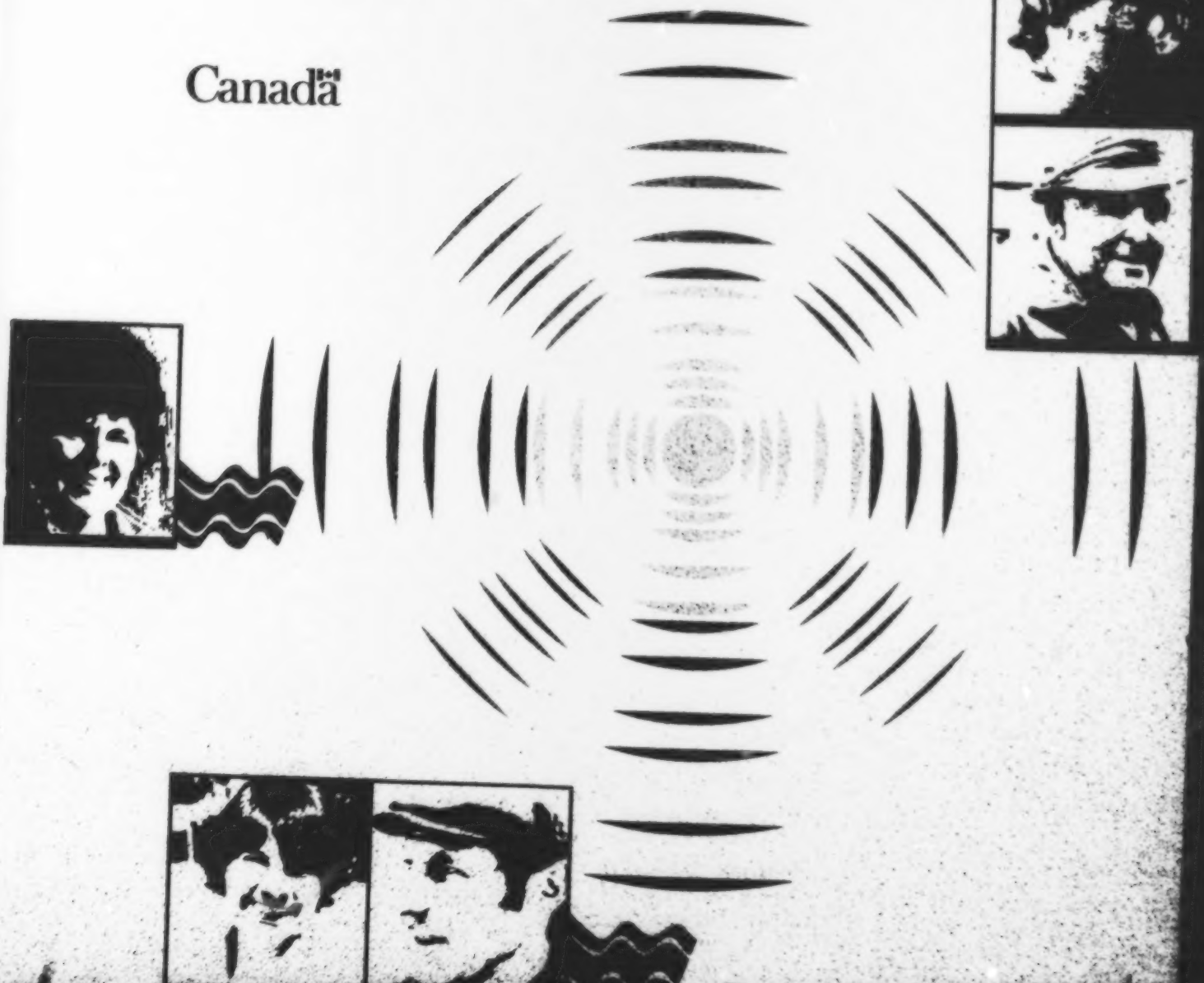
Farm Credit Corporation

Annual Report 1985/86

Canada



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Head Office Address
Farm Credit Corporation
434 Queen Street
Ottawa, Ontario
K1P 6J9

Le Rapport annuel est aussi disponible en français

Corporate Profile

Farm Credit Corporation (FCC) was established in 1959 as a Crown agency reporting to Parliament through the Minister of Agriculture. Its role is to provide financial services to enable Canadian farmers to establish, develop and maintain viable farm enterprises.

The Corporation makes and administers farm loans under the authority of the Farm Credit Act and the Farm Syndicates Credit Act.

In addition, counselling and assistance in the planning, organization and development of farm businesses are available to all applicants and borrowers.

The Corporation's head office is located in Ottawa. Its operations are decentralized into seven regional offices and 105 field and district offices serving all agricultural areas. As of March 31, 1986, FCC's total permanent staff was made up of 571 employees.

Letter of Transmittal

The Honourable John Wise, P.C., M.P.
Minister of Agriculture
Room 101 E.B.
House of Commons
Ottawa, Ontario
K1A 0A6

The Honourable Robert R. de Cotret, P.C., M.P.
President of the Treasury Board
Room 333 W.B.
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Ministers:

I am pleased to submit the Farm Credit Corporation's annual report for the fiscal year ending March 31, 1986.

This has been a difficult year for Farm Credit Corporation and the farmers it serves. The financial results outlined in this report reflect the economic adjustments in the agricultural sector due to weak international markets and difficult climatic conditions.

The report also shows that this has been a year of program innovation. The Corporation, with the support of the federal government, was able to develop new financial services aimed at assisting farmers to adapt to the changing economic environment.

Yours sincerely,

Eiliv H. Anderson
Chairman

Highlights

Operational	1985-86	1984-85	Change (per cent)
Number of Loans Approved			
Farm Credit Act	**2,278**	2,316	−1.6
Farm Syndicates Credit Act	**37**	63	−41.3
Amount of Loans Approved – net ($000)			
Farm Credit Act	**$ 237,683**	$ 258,748	−8.1
Farm Syndicates Credit Act	**$ 1,119**	$ 1,584	−29.4
Average Size of Loans			
Farm Credit Act	**$ 108,413**	$ 116,123	−6.6
Loans Receivable Portfolio			
Number of loans receivable	**78,183**	79,270	−1.4
Amount of loans receivable ($000)	**$5,018,898**	$4,992,728	+0.5

Financial	1985-86 ($000)	1984-85 ($000)	Change (per cent)
Results of operations			
Interest income	**520,595**	527,261	−1.3
Net interest income	**45,890**	47,279	−2.9
Loss for the year	**121,406**	30,178	+302.3
Cash provided			
Capital and net loans	**193,172**	81,218	+137.8
Repayments by farmers	**256,286**	235,247	+8.9
Cash used			
Loans to farmers	**222,447**	258,193	−13.8

Chairman's Report

Although many sectors of the Canadian economy continued to recover from the slump of the early 1980's, the financial performance of the farm sector declined during the past year. This is similar to trends in other agricultural exporting countries. In addition, drought in western Canada for a second year in a row and unfavourable climatic conditions in other regions contributed to the cash-flow difficulties of many farmers, especially those who had entered the business since the mid-1970's. Nationally, realized net farm income in 1985 declined by 13.9 per cent from the year before.

Despite last year's falling interest rates, many farmers did not make capital investments because commodity surpluses limited their expectations of income growth. As a result, lenders experienced little or no farm loan portfolio growth in 1985. Many highly leveraged farmers had to consolidate debt, liquidate assets or reduce the size of their operations. For some farmers, these actions were insufficient to achieve economic viability. The weak economic conditions also placed downward pressure on farm real estate values throughout most of Canada.

The federal government's response to the needs of farmers and their families included the moratorium on FCC foreclosures, drought assistance and the initiatives contained in the February 26, 1986 Budget which announced the establishment of a national debt review process, the Commodity-based Loan Program, the Canadian Rural Transition Program and other measures. At the First Ministers' Conference in November 1985, several federal-provincial working groups were established to examine issues in agriculture, including farm finance.

The current financial difficulties in the farm sector have evolved over several years, so long-term restructuring of agriculture is needed to make it stronger and more efficient. This process will also require teamwork, patience, and flexibility. Initiatives such as Project Hope in Ontario, where people in the rural community have joined forces to provide assistance and viable alternatives to farmers in need, will make an important contribution. The responses of commercial lenders, federal and provincial governments and their lending agencies, farmers and farm groups have also been encouraging. Although the next few years will not be easy, the economic transition taking place will ultimately strengthen Canadian agriculture as farm businesses with firmer capital structures make up a greater proportion of the industry and the number of highly leveraged farms declines. Farm Credit Corporation is fully committed to assisting farmers to adjust to the changes occurring in agriculture.

FCC in review

The size of FCC's loan portfolio increased only marginally and the total number of accounts outstanding decreased in response to the economic restructuring of agriculture. At the close of the fiscal year on March 31, 1986, Farm Credit Corporation had just over $5 billion outstanding on 78,183 accounts compared to just under $5 billion on 79,270 accounts a year earlier. Total loan approvals at $237.7 million declined 8.1 per cent from 1984-85. Loan approvals were only 31.4 per cent of the lending peak of $758.1 million in 1983-84, a dramatic change from the growth that the Corporation experienced over the past decade.

The Corporation's financial performance also reflected the trends in the agricultural economy. A provision for loan losses of $190.4 million was required to accommodate anticipated losses on the present loan portfolio. This was the primary reason for the loss on operations of $121.4 million this year.

In response to concerns expressed by farmers about the suitability of fixed long-term interest rates in today's economic environment, the Shared Risk Mortgage was introduced to help borrowers plan in an era of interest rate volatility. Under a Shared Risk Mortgage, a borrower benefits from decreasing rates and there is also a ceiling on increases. This program has proven very successful. Nationally, about 20 per cent of total loan approvals were for Shared Risk Mortgages while in British Columbia, Alberta and Manitoba about 50 per cent of the loans were approved under this program.

By the end of June 1985, FCC had completed the conversion of high interest rate loans. This program, introduced by the Minister of Agriculture in January of 1985, assisted FCC borrowers with loans at interest rates between 14 and 16¾ per cent for terms as long as 30 years. They were given the option to convert their mortgages to five-year terms at 12¾ per cent. A total of 5,455 farmers with loans outstanding of about $535 million took advantage of the conversion.

To improve service to farmers, loan approval authority for certain loan categories was decentralized to the field level. As a result, about 30 per cent of the loans were approved locally, giving farmers timely decisions on their loan applications.

The Minister of Agriculture requested a review of the role and mandate of FCC. Farmers and farm groups conveyed many useful suggestions. The diversity of views illustrated how difficult it is to develop credit policies that meet the needs of all farmers. However, there was broad consensus that market interest rates are too high and that a reduction in interest rates would help relieve the financial pressures on highly-leveraged farmers.

On September 17, 1985, a moratorium on FCC foreclosure actions was announced. The moratorium allowed time for the role and mandate of FCC to be reviewed, the results of the Grey-Bruce Debt Review Board and the FCC Appeal Boards to be assessed, and new program options to be studied. These reviews assisted in developing the measures for farmers in financial difficulty announced in the February 26 federal Budget.

The Ministerial Task Force on Program Review assessed the FCC loan program. It recommended the elimination of FCC government borrowings, an interest margin that would strengthen FCC's balance sheet, compensation for losses under the Special Farm Financial Assistance Program and enhancement of the Farm Syndicates Credit Act. Further discussions and decisions on these issues are expected in the 1986-87 fiscal year.

Outlook for 1986-87

Canadian farmers depend on export markets for about half of their farm cash receipts, making them vulnerable to international events. The U.S. Farm Bill and aggressive U.S. export policies, discussions on free trade, negotiation of the General Agreement on Trade and Tariffs (GATT), protectionist sentiments in many countries and changing world trade patterns will challenge farmers to adapt to new market conditions and will have long-term impacts on the structure of Canadian agriculture.

Although grain prices are expected to decrease in 1986, total realized net farm income is expected to be near the $3.7 billion achieved in 1985. Modest annual farm income growth is expected through the rest of this decade. Downward trends in interest rates in 1985, if maintained through 1986, combined with reduced energy costs, should strengthen farm cash flows.

For farmers, finely tuned financial strategies will be important to generate maximum returns. Over the longer term, the provision of more timely marketing information and developments in technology including genetic engineering will contribute to the profitability and competitiveness of the sector.

The trends in Canadian agriculture also challenge lenders to develop new services and new financial instruments which allow farmers to manage financial risk more effectively as well as to take advantage of investment opportunities. Innovations such as FCC's Commodity-based Loan,

which links repayment with commodity prices, could serve to encourage similar initiatives from commercial lenders. FCC is committed to these instruments and to research on concepts such as equity financing to meet the changing financial needs of the farm sector.

Over the next year, FCC will continue to finance new investments by farmers whose business plans show that they can develop financially viable enterprises. In addition, the Corporation will refinance many current borrowers through the Commodity-based Loan Program to help them adapt to market conditions. The Corporation will continue to work closely with individual farmers, farm groups and other lenders. The federal government's Canadian Rural Transition Program, with its counselling, retraining and assistance, will help ease the painful transition many farmers will have to make. Each FCC borrower requires individual attention and FCC is committed to providing a thorough analysis of each applicant's financial situation to give the most realistic assessment possible. This approach combined with program innovation will contribute to the long-term strength of Canadian agriculture.

Jean-Marc Braun, left, and credit advisor Kurt Serr vin evaluating the cost of replacing machinery

Eiliv H. Anderson
Chairman

1985-86 Objectives and Performance

The following shows the actual performance and results achieved during the year for the objectives and financial targets set out in the 1985-86 Corporate Plan.

Objective 1

Financial Services

To increase the emphasis on the development of financial services to meet the needs of Canadian farmers.

At the request of the Minister of Agriculture, the Corporation reviewed its role and mandate. Farmers, farm groups and others were invited to submit recommendations for change.

High interest rates were a common concern as was the need for financial instruments that respond to the needs of the farm sector. As a result, the Commodity-based Loan Program was developed and announced in the February 26, 1986 Budget for implementation in 1986-87.

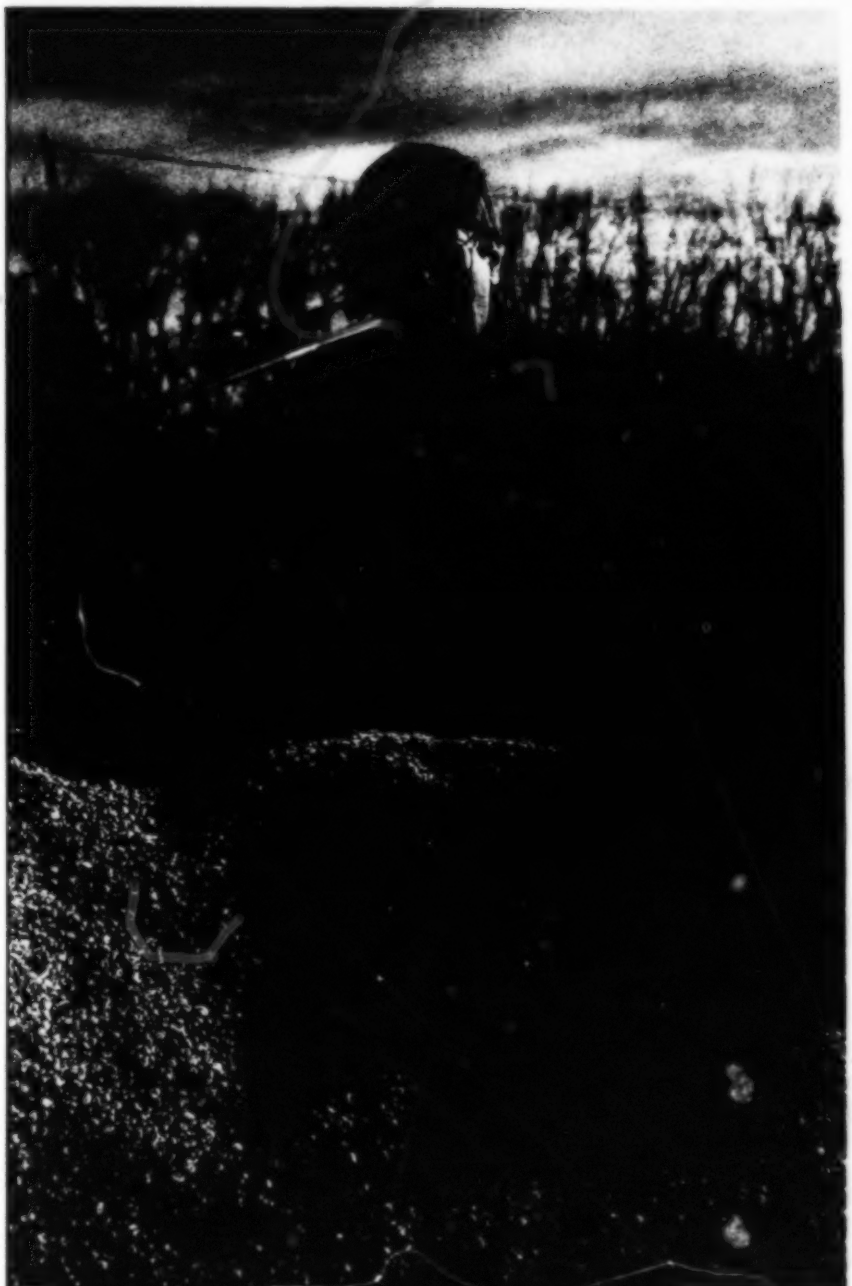
Equity financing is another concept with potential for meeting the needs of agriculture by providing an alternative to debt financing. FCC officials have discussed this idea extensively with farmers, farm groups and other organizations. This initiative requires further development and is being reviewed by the Federal/Provincial Working Group on Farm Finance. It could result in further innovation in the agricultural capital markets.

Objective 2

Employee Commitment

To attract, maintain, and motivate competent and innovative staff.

The Corporation developed and implemented policies on employment equity and personal harassment. Training opportunities were extended to staff in such



Loans officer Dennis Howden inspecting crops in Manitoba

areas as client counselling and computer applications. The client counselling training enables credit advisors to be more effective in assisting farmers who must make important decisions about the future of their enterprises. An early retirement incentive program will enhance organizational restructuring to make more effective and efficient use of human resources.

Objective 3

Decision Support

To improve decision support facilities by continued emphasis on new office technology.

Throughout the year, further development took place on the general ledger/budget system, and the financial/lending data base.

To support the continued introduction of new technology, an office information centre was established. This centre provides support to the users of new technology throughout the Corporation. Computer software for farm financial planning was tested for implementation in 1986-87.

A financial services system has also been initiated. The collection of data from a number of farms across Canada is intended to strengthen the Corporation's lending decisions and advisory services program.

Objective 4

Operating Performance

To reduce operating losses before taxes from $30.2 million in 1984-85 to $6.2 million in 1985-86.

Farm financial difficulties combined with unfavourable climatic conditions resulted in a substantial increase in the provision for losses on FCC's loan portfolio. Consequently, this objective was not achieved. The rates of return below provide the results including and excluding the Special Farm Financial Assistance Program (SFFAP), which was introduced in the Federal Budget of November 1981 to assist farmers in financial distress.

	1985-86	1984-85	1983-84	1982-83	1981-82
Excluding SFFAP ($000)	**($116,960)**	($14,552)	($47,414)	($11,917)	$3,461
Including SFFAP ($000)	**($121,406)**	($30,178)	($53,395)	($24,459)	

Objective 5

Administrative Expenses

To limit administrative expenses to .75 per cent of average outstanding loans receivable.

The Corporation was able to achieve this objective by closely monitoring its level of activities.

1985-86	1984-85	1983-84	1982-83	1981-82
0.75%	0.70%	0.73%	0.74%	0.70%

Objective 6

Loan Portfolio Management

To reduce the loan loss factor to four per cent for loans approved in 1985-86 from 4.5 per cent for those approved in 1984-85.

This measure, which reflects the level of losses expected on new loans, was introduced in 1984-85 to monitor more closely the risk being added to FCC's loan portfolio. Through careful monitoring, the Corporation was able to achieve a loan loss factor of 3.2 per cent.

1985-86	1984-85
3.2%	4.5%

1986-87 Objectives

Credit advisor Barbara Parker (left) and beginning farmer Lyn Huxley: transferring the family farm to the next generation

Objective 1

Financial Services

To amend and develop programs to meet the expected financial needs of the farm sector.

Objective 2

Employee Commitment

To attract, maintain and motivate competent and innovative staff.

Objective 3

Financial Performance

To administer public funds in line with the long-term objective to achieve a return on capital.

Objective 4

Administration

To study, develop and implement ways to improve management practices and operational effectiveness, and to operate in a professional manner.

Review of Operations

Operations under the Farm Credit Act

The Corporation offers two types of loans under the Farm Credit Act:

1) Standard farm loans where applicants must be principally occupied in farming after the loan is made;

2) Loans under Section 33 to beginning farmers who may retain off-farm employment while developing an economic farm business, provided that farming becomes their principal occupation within five years.

FCC introduced the Shared Risk Mortgage to help borrowers plan for fluctuating interest rates.

At the beginning of this fiscal year, Farm Credit Corporation introduced the Shared Risk Mortgage as a new type of loan under the Farm Credit Act. With this instrument, the borrower and FCC share the costs or benefits of fluctuating interest rates. This mortgage has a six-year renewable term, with the interest rate adjusted annually.

Farmers with standard loans are eligible to choose the Shared Risk Mortgage, or fixed-interest loans with terms of five, 10, 15 or more years. Those phasing into farming are offered loans with five-year terms.

Loan Approvals

Under the Farm Credit Act, 2,278 loans for a net amount of $237.7 million were approved. This excludes the amount for the refinancing of existing FCC loans. Under Section 33, 66 loans for $6.3 million were approved. The average size of loan was $108,413 versus $116,123 in 1984-85.

Of loans approved, 56.5 per cent were for five-year terms, 10.0 per cent for 10-year terms, 12.4 per cent for terms of 15 or more years and 21.1 per cent were Shared Risk Mortgages.

Purposes of Loans

The purposes for which loan funds were used in 1985-86 followed the historic pattern. The majority of loans were used to establish new farm units and to expand existing operations. The amount used to repay other debts decreased from last year.

Characteristics of Borrowers

In 1985-86, the average asset level of FCC borrowers increased to $529,304 from $487,749 in the previous year. The equity level of FCC borrowers averaged 54.6 per cent compared to 51.2 per cent for 1984-85. This indicates that the farmers who borrowed from FCC in 1985-86 had the higher equity levels required to survive low commodity prices.

The average loan-to-security ratio increased from .64 to .65. For every dollar loaned out, $1.55 in assets were pledged. About 85.7 per cent of the loans approved in 1985-86 were secured by a first mortgage with FCC or an FCC mortgage subsequent to a prior FCC mortgage. Farmers under 35 years of age received 59.5 per cent of the Corporation's loans compared to 67.8 per cent last year.

Farm Financial Management

At year end, 3,179 farmers were participating in advisory services provided by the Corporation, compared to 3,424 last year. Pre-loan counselling for planning of the financial organization and development of farm businesses was available to all applicants. As well, the Corporation's staff liaises with and refers farmers to other federal and provincial agencies.

Life Insurance

Farm Credit Corporation offers group life insurance to all of its borrowers. This year, 75.7 per cent of loans approved were covered partially or fully by life insurance.

Loan Administration

On March 31, 1986, 81.9 per cent of accounts were in good standing, down from 84.7 per cent last year. Arrears (excluding accounts with less than $500 in arrears) stood at $245.2 million, up 51.1 per cent from last year. Arrears represent 4.89 per cent of the total loan portfolio.

Table 1

Purposes for which loans were approved

	1985-86 (per cent)	1984-85 (per cent)
New units	18.8	24.8
Additional land	36.8	29.6
Repayment land-secured debts	15.2	13.8
Repayment other debts	13.3	17.9
Permanent improvements	7.5	6.7
Equipment	1.7	1.4
Livestock	1.0	1.1
Miscellaneous	5.7	4.7

Credit advisors Maurice Chasse, Mike Foster and Liz Maynard: honing farm appraisal skills

The Corporation continues to identify weak accounts and consult with the borrowers to seek solutions before the arrears become a problem. Economic conditions limit the options in many cases.

During the year, the appeals of 71 farmers under recovery action were reviewed by the Appeal Boards. In 28 cases FCC's actions were modified in response to the Appeal Boards' recommendations.

A moratorium on recovery actions has been in place since September 17, 1985. However, this moratorium did not apply to cases where the farm had been abandoned, bankruptcy had been declared, there had been a voluntary transfer of title or quit claim, recovery action had been initiated by another creditor thus forcing FCC to protect its security, or part of the security was disposed of without FCC approval. Consequently, FCC acquired 324 properties during the year, up 110 from last year. Under power of sale, 91 farms were sold.

The Corporation sold 193 properties during the year and retained ownership of 370 properties at March 31, 1986. Because of weak demand for farm real estate, some of these properties are rented until conditions improve.

Net losses and write-downs on properties sold or on hand at the end of the fiscal year amounted to $49.0 million compared with $27.5 million in 1984-85. This represented .98 per cent of total loans receivable as of March 31, 1986.

Operations under the Farm Syndicates Credit Act

This Act enables FCC to lend to syndicates of three or more farmers, the majority of whom are principally occupied in farming. The loans are for the shared purchase and use of farm machinery, buildings and installed equipment.

In 1985-86, 37 loans to syndicates were approved for $1.12 million. At year end, 147 accounts were in arrears for $1.5 million.

Capital and Money Market Borrowing

During the year, the Corporation borrowed from international capital markets to fund its lending program. Three issues were completed:

- yen 15 billion (redemption amount U.S. $60 million) of 8⅝% dual currency bonds due 1990;
- $100 million/10% notes due 1992;
- $90 million/9⅛% notes due 1991.

In addition, the Corporation borrowed $42 million from the Consolidated Revenue Fund (CRF)

Table 2
Financial characteristics of farm operations borrowing from FCC

	1985-86 (average)	1984-85 (average)
Total assets	$529,304	$487,749
Per cent equity	54.6	51.2
Loan approved	$108,413	$116,123
Loan-to-security ratio	.65	.64

repayable in 1991. The CRF and public borrowings totalled about $316 million.

The yen proceeds from the dual currency issue and the interest due, which was payable in yen, were converted into Canadian dollars. Forward contracts converted the Corporation's liability for the payment of the aggregate redemption amount into Canadian dollars. As a result, the foreign exchange exposure created by the dual currency issue was eliminated.

The Corporation continues to make maximum use of its $350 million short-term promissory note operation. The Corporation issues short-term notes on an ongoing basis to finance the short-term component of arrears, as well as a portion of the Shared Risk Mortgage program. In addition, the use of promissory notes provides greater flexibility in the timing of capital market issues, allowing the Corporation to take advantage of movements in interest rates throughout the year.

The promissory note program is supported by a $210 million fully-committed standby credit facility with a Canadian chartered bank.

Financial Review

Results of Operations

A loss of $121.4 million was incurred compared to a loss of $30.2 million the previous year. The larger loss in 1985-86 was attributable to a provision for loan losses of $134.0 million compared to the provision of $46.2 million in 1984-85.

Interest income fell 1.3 per cent to $520.6 million while interest expenses decreased 1.1 per cent to $474.7 million. As a result, the net interest income decreased by 2.9 per cent to $45.9 million.

Administrative expenses were $35.0 million, which is an increase of $2.9 million. This compares to an increase of $.5 million in 1984-85.

Cash flow

Since its founding, FCC's major sources of funds have been advances from the government in the form of additions to the Corporation's equity capital and long-term loans from the Consolidated Revenue Fund. An amendment to the Farm Credit Act in 1982 gave FCC the authority to borrow money, with the approval of the Minister of Finance, from sources other than the Consolidated Revenue Fund. The aggregate capital market borrowings to March 31, 1986 were about $732 million. Debt securities issued in connection with borrowings carry the full faith and credit of Canada, and constitute direct unconditional obligations of Canada.

The Corporation used $80.7 million in operating activities. The cash shortfall resulted from the excess cash outflow in the form of interest and administrative expenses over the cash inflow in the form of interest and other revenues. The most significant factor contributing to this cash deficit was the increase in interest arrears of $70.2 million in 1985-86 compared to an increase of $45.8 million last year.

The Corporation disbursed $222.4 million in net loans to farmers, a decrease of $35.8 million from the $258.2 million disbursed the previous year.

Loan repayments from farmers totalled $256.3 million, up from $235.2 million the previous year.

Loans receivable portfolio

The Corporation's loan portfolio (see Table 5) consisted of 78,183 accounts totalling $5.0 billion as at March 31, 1986 (see note 3 to the Financial Statements). This included $9.0 million under the Farm Syndicates Credit Act and $337.0 million under the Special Farm Financial Assistance Program. The portfolio also includes loan accounts amounting to $30.5 million arising from sales of real estate.

Allowance for loan losses

Relatively high interest rates, weak commodity prices and low land values in recent years continued to increase the probability of loan losses. While an allowance for such losses was made in the past two years, it was increased again during the 1985-86 fiscal year by $85.0 million. (see Table 4).

Table 3
Loans approved by province
(Farm Credit Act)

	1985-86		1984-85	
	Number	Net Amount ($000)	Number	Net Amount ($000)
British Columbia	66	8,729	60	7,082
Alberta	361	39,142	376	45,608
Saskatchewan	1,001	101,100	969	100,480
Manitoba	135	12,042	188	18,405
Ontario	425	54,020	513	70,396
Quebec	173	12,762	85	6,745
New Brunswick	70	6,536	64	5,428
Nova Scotia	0	0	1	95
Prince Edward Island	42	3,025	48	3,399
Newfoundland	5	327	12	1,110
Canada	2,278	237,683	2,316	258,748

Table 4
Allowance and provision for loan losses ($ millions)

	85-86	84-85	83-84	82-83	81-82
Allowance for loan losses at the beginning of the year	105.4	86.7	34.7	11.0	5.3
Actual losses on loans and write-downs of acquired real estate during the year	(49.0)	(27.5)	(13.7)	(8.1)	(3.0)
	56.4	59.2	21.0	2.9	2.3
Estimated allowance required at year-end	190.4	105.4	86.7	34.7	11.0
Provision for loan losses (expenses)	134.0	46.2	65.7	31.8	8.7

Table 5
Loans receivable portfolio as at March 31, 1986
(in thousands of dollars)

	Number	Principal Not Due	Arrears	Accrued Interest	Amounts Held for Future Instalments	Net Total
Loans to farmers (F.C.A.)						
British Columbia	2,385	160,000	12,639	7,940	(3,678)	176,901
Alberta	15,195	806,360	55,218	54,907	(8,072)	908,413
Saskatchewan	24,156	1,405,934	74,728	94,151	(12,339)	1,562,474
Manitoba	7,612	395,754	26,465	20,797	(4,568)	438,448
Ontario	18,337	1,240,170	59,291	51,051	(19,208)	1,331,304
Quebec	7,321	412,984	10,675	17,347	(2,722)	438,284
New Brunswick	912	53,558	2,467	2,725	(965)	57,785
Nova Scotia	119	5,162	230	182	(134)	5,440
P.E.I.	927	45,413	2,914	2,562	(509)	50,380
Newfoundland	120	9,159	627	409	(216)	9,979
Canada	77,084	4,534,494	245,254	252,071	(52,411)	4,979,408
Loans to farm syndicates (F.S.C.A.)						
British Columbia	11	166	39	8	0	213
Alberta	85	1,193	395	107	(47)	1,648
Saskatchewan	44	542	110	39	(6)	685
Manitoba	93	668	364	50	(17)	1,065
Ontario	145	1,711	308	97	(31)	2,085
Quebec	189	2,408	199	127	(16)	2,718
New Brunswick	17	292	38	12	0	342
Nova Scotia	2	39	0	4	0	43
P.E.I.	6	65	3	4	(2)	70
Newfoundland	3	139	0	4	0	143
Canada	595	7,223	1,456	452	(119)	9,012
Loans receivable from real estate sales (F.C.A.)						
British Columbia	25	2,036	32	88	(30)	2,126
Alberta	43	1,920	194	118	(11)	2,221
Saskatchewan	1	42	0	2	0	44
Manitoba	36	2,090	127	127	(13)	2,331
Ontario	267	15,394	789	756	(105)	16,834
Quebec	105	5,178	40	250	(17)	5,451
New Brunswick	11	474	7	34	0	515
Nova Scotia	3	65	0	3	(2)	66
P.E.I.	9	462	1	47	0	510
Newfoundland	4	365	9	14	(8)	380
Canada	504	28,026	1,199	1,439	(186)	30,478
Total	78,183	4,569,743	247,909	253,962	(52,716)	5,018,898

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared by management in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal controls is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

These financial statements have been independently examined by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.

Elliv H. Anderson
Chairman and
Chief Executive Officer

William G. Mann, C.A.
Comptroller and
Chief Financial Officer

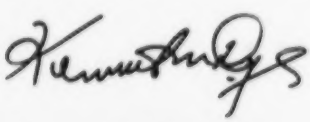
Auditor's Report

The Honourable John Wise, P.C., M.P.
Minister of Agriculture

I have examined the balance sheet of Farm Credit Corporation as at March 31, 1986 and the statements of operations and deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.



Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 12, 1986

Farm Credit Corporation

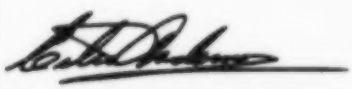
Balance Sheet

as at March 31, 1986

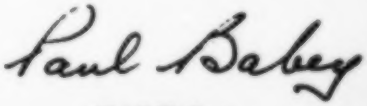
	1986	1985
	(in thousands of dollars)	
Assets		
Cash and short-term investments	$ 112,348	$ —
Accounts receivable	192	92
Loans receivable (Note 3)	5,018,898	4,992,728
Less: Allowance for loan losses (Note 4)	190,400	105,400
	4,828,498	4,887,328
Real estate	45,805	26,987
Fixed assets	1,983	1,738
Unamortized debt issue expenses	26,210	24,084
	$5,015,036	$4,940,229
Liabilities		
Bank indebtedness	$ —	$ 161
Accounts payable and accrued liabilities	6,842	6,223
Short-term notes	237,497	97,333
Provision for employee termination benefits	4,583	2,844
Loans payable (Note 5)	4,758,415	4,704,563
	5,007,337	4,811,124
Equity of Canada		
Contributed capital (Note 6)	218,333	218,333
Deficit	210,634	89,228
	7,699	129,105
	$5,015,036	$4,940,229

The accompanying notes are an integral part of the financial statements.

Approved by the Board:



Elliv H. Anderson
Chairman and
Chief Executive Officer



Paul Babey
Vice-Chairman and
Chief Operating Officer

Farm Credit Corporation

Statement of Operations and Deficit

for the year ended March 31, 1986

	1986	1985
	(in thousands of dollars)	
Interest income		
Loans receivable	$509,497	$514,410
Investments	11,098	12,851
	520,595	527,261
Interest expense		
Loans payable	452,978	466,670
Short-term notes	21,727	13,312
	474,705	479,982
Net interest income	45,890	47,279
Provision for loan losses	133,972	46,278
	(88,082)	1,001
Fees and other income	1,637	907
	(86,445)	1,908
Administrative expenses		
Salaries and employee benefits	26,298	23,978
Travel	2,494	2,183
Office accommodation	2,429	2,353
Other	3,740	3,572
	34,961	32,086
Loss for the year	121,406	30,178
Deficit at beginning of the year	89,228	59,050
Deficit at end of the year	$210,634	$ 89,228

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation

Statement of Changes in Financial Position

for the year ended March 31, 1986

	1986	1985
	(in thousands of dollars)	
Cash provided by (used in) operating activities:		
Loss for the year	($121,406)	($30,178)
Items not involving cash		
Provision for loan losses	133,972	46,278
Losses on loans receivable	(14,660)	(7,283)
Write-down and losses on real estate	(34,312)	(20,245)
Increase in interest due on loans receivable	(70,159)	(45,754)
Net change in accrued interest	3,800	(32,458)
Other	2,008	(1,506)
	(100,757)	(91,146)
Loans to farmers	(222,447)	(258,193)
Loans receivable repaid	256,286	235,247
Increase in real estate	(18,818)	(12,686)
Other	5,073	4,571
Cash used in operating activities	(80,663)	(122,207)
Cash provided by (used in) financing activities:		
Loans from Canada	42,500	667,200
Loans repaid to Canada	(256,868)	(867,025)
Loans from Capital Markets	273,459	167,543
Debt issue expenses	(6,083)	(12,233)
Net increase in short-term notes	140,164	97,333
Capital contributed by Canada	—	28,400
Cash provided by financing activities	193,172	81,218
Net increase (decrease) in cash and short-term investments	112,509	(40,989)
Cash and short-term investments (bank indebtedness) at beginning of year	(161)	40,828
Cash and short-term investments (bank indebtedness) at end of year	$112,348	($161)

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation

Notes to Financial Statements

March 31, 1986

1. The Corporation

Farm Credit Corporation was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is a Crown corporation named in Schedule C, Part I of the Financial Administration Act. The Corporation's prime objective is to assist Canadian farmers to establish and develop viable farm enterprises through the use of long-term credit as provided for by the Farm Credit Act.

The Corporation also administers the lending program authorized under the Farm Syndicates Credit Act which was originally introduced as the Farm Machinery Syndicates Credit Act in 1964. It provides for loans to groups or syndicates of farmers organized to share in the purchase and use of farm machinery, buildings and installed equipment.

Under the provisions of the Farm Credit Act, the Corporation is also required to administer certain programs assigned to it by the Government. The Corporation extended credit under the Special Farm Financial Assistance Program, a temporary program which expired in June 1984, introduced to assist farmers in financial difficulty.

2. Significant accounting policies

(a) Allowance for loan losses

The allowance for loan losses relates to loans receivable and represents an estimate of future probable losses on the accounts outstanding at the end of the year. With respect to this estimate, the Corporation recognizes that future economic and agricultural conditions are not predictable and, therefore, their impact on the collectability of loans is uncertain.

Actual losses on loans and write-downs of acquired real estate to net realizable value are charged to the allowance while recoveries of loan losses are credited to the allowance. The adjustment of the allowance to the appropriate level is charged to operations as a provision for loan losses.

(b) Revenue recognition

Interest income is recorded on an accrual basis. Interest is not accrued on non-performing loans, which are defined as those where there is reasonable doubt as to collectability and are under legal recovery action.

Loan application fees are recorded when received. Appraisal fees withheld from loan funds are recorded at the time the loans are disbursed. Partial discharge fees are recorded when the discharge occurs.

Service charges earned on loans to farm syndicates are recorded when loans are disbursed.

Penalties charged on loan prepayments are recorded at the time the prepayments are applied as a reduction of loan principal.

Fees relating to mortgage assumptions, exchange of securities and renewal of term mortgages are recorded when the related mortgage documents are prepared.

(c) Real estate

Real estate is carried at the lower of cost and net realizable value. It represents farm property acquired in the process of administering the outstanding loans receivable and must be disposed of within five years of acquisition or such further period as the Governor in Council may prescribe.

(d) Fixed assets

Fixed assets are recorded at cost less accumulated depreciation. Leasehold improvements are amortized using the straight-line method over the term of the lease and one renewal period. Computer hardware and software are depreciated using the straight-line method over their estimated useful lives. Other fixed assets are depreciated using the diminishing balance method at annual rates of 20% for furniture and equipment and 30% for automobiles.

(e) Debt issue expenses

Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and included in interest expense on loans payable.

(f) Translation of foreign currencies

Loans payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are considered to be financing costs and are therefore amortized by charges to interest expense over the lives of the obligations on a straight-line basis. The unamortized portion of these costs is included with unamortized debt issue expenses in the balance sheet. The related interest payable in foreign currencies on these debt issues is also hedged by currency conversion agreements and is translated into Canadian dollars at such contract rates.

(g) Pension plan

The Corporation's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are made equally by both employees and the Corporation, and these contributions in respect of current service are expensed during the year in which the services are rendered.

(h) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to severance benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(i) Income taxes

The Corporation records income taxes on the tax allocation basis which recognizes the income tax effect on transactions when they are recorded in accounting income, regardless of when such items are recognized for tax purposes.

3. Loans receivable

	Maturities not exceeding	Annual interest rate %	1986	1985
			(in thousands of dollars)	
Loans to farmers, secured by mortgages	25 years	5- 7¼	$ 614,034	$ 671,919
	26 years	8-10¼	1,825,880	1,898,708
	26 years	11-12¼	1,662,452	1,730,870
	27 years	13-16¼	877,242	654,699
			4,979,408	4,956,196
Loans to farm syndicates, secured by notes	15 years	6¼-17½	9,012	11,512
Loans receivable from real estate sales, secured by agreements for sale or mortgages	26 years	5-15¾	30,478	25,020
			$5,018,898	$4,992,728

Maturities by fiscal year are as follows:

	1986	1985
	(in thousands of dollars)	
1986	$ —	$ 502,998
1987	578,077	138,036
1988	139,920	148,228
1989	149,770	158,937
1990	160,017	170,538
1991	171,437	182,709
1992 through 2013	3,819,677	3,691,282
	$5,018,898	$4,992,728

At March 31, 1986 accrued interest of $254.0 million (1985 – $263.0 million) and arrears of $247.9 million (1985 – $164.2 million) are included in loans receivable and shown as maturing in the year ending March 31, 1987. During the year, interest not recognized on non-performing loans amounted to $5.4 million.

Prepayments of principal from farmers of $106.3 million (1985 – $101.6 million) were received during the year.

4. Allowance for loan losses

The allowance for loan losses at March 31, 1986 reflects the Government's $20 million commitment to reduce the impact of future probable loan losses on the Corporation. This $20 million commitment was made in the February 26, 1986 Budget as part of the Federal Government's Farm Financial Assistance package.

5. Loans payable

	Maturities not exceeding	Annual interest rate %	1986	1985
			(in thousands of dollars)	
Loans from Canada, secured by notes				
Farm Credit Act	11 years	5- 7⅞	$ 625,951	$ 731,478
	15 years	8-10⅞	1,529,561	1,552,067
	16 years	11-12⅞	1,730,977	1,815,966
			3,886,489	4,099,511
Farm Syndicates Credit Act	8 years	9¾-16½	9,172	10,518
			3,895,661	4,110,029
Loans from capital markets, secured by notes				
Farm Credit Act	10 years	8¾-12¼	735,312	461,575
Amounts owing in respect of interest rate and currency conversion agreements	10 years	8¾-11	11,290	11,568
			4,642,263	4,583,172
Accrued interest			116,152	121,391
			$4,758,415	$4,704,563

Maturities by fiscal year are as follows:

	1986	1985
	(in thousands of dollars)	
1986	$ —	$ 318,260
1987	327,854	191,198
1988	211,885	187,996
1989	230,534	203,330
1990	861,462	830,469
1991	460,136	382,667
1992 through 2004	2,666,544	2,590,643
	$4,758,415	$4,704,563

At March 31, 1986 accrued interest of $116.2 million (1985 – $121.4 million) is shown as maturing in the year ending March 31, 1987.

The Corporation has received blanket approval from Treasury Board Canada to borrow an amount not exceeding $601 million from the capital markets during the year ending March 31, 1987. Individual approval is required from the Minister of Finance for each borrowing.

6. Contributed capital

The contributed capital of the Corporation represents the amount received from Canada under section 12 of the Farm Credit Act. The statutory limit on this amount is $225.0 million (1985 – $225.0 million). During the year, no capital (1985 – $28.4 million) was contributed by Canada.

7. Income taxes

At March 31, 1986 the Corporation has available various timing differences of approximately $186.0 million which have not been recognized in the accounts and which result primarily from differences between the provision for loan losses charged to operations and the amount claimed for tax purposes pursuant to Section 33 of the Income Tax Act.

8. Limits on borrowing

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the capital of the Corporation. At March 31, 1986 the Corporation's outstanding borrowings under this Act, comprising short-term notes of $237.5 million and loans payable of $4,621.8 million, were 22.26 times the capital of $218.3 million (1985 – 21.33 times).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to twenty-five million dollars. At March 31, 1986 the Corporation's loans from Canada under this Act were $9.2 million (1985 – $10.5 million).

9. Commitment to farmers

As at March 31, 1986 loans to farmers approved but not disbursed amounted to $44.3 million (1985 – $41.2 million), most of which were approved at rates ranging from 11½% to 12½%. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1986 from funds to be borrowed by the Corporation at prevailing commercial rates of interest at the time of borrowing.

10. Operating leases

The future minimum lease payments by fiscal year required under operating leases having initial non-cancellable lease terms in excess of one year are as follows:

	(in thousands of dollars)
1987	$1,575
1988	1,102
1989	754
1990	648
1991	510
1992 and subsequent	1,803
	$6,392

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of those amounts established at the commencement of the lease term.

11. Segmented information

The Corporation operates in one business segment, providing long-term loans to Canadian farmers.

12. Subsequent Event – Commodity-based Loan Program

In the February 26, 1986 Budget, the Government directed the Corporation to establish a $700 million loan program (up to $300 million in 1986-87 and up to an additional $400 million in 1987-88) to make commodity-based mortgages available to existing clients who are experiencing financial difficulty and who meet the eligibility criteria.

The Commodity-based Loan Program is expected to reduce the number of farm failures among existing borrowers by providing a financing instrument with debt obligations and payments which vary according to the ability of the farm business to pay because of variable commodity prices.

13. Comparative figures

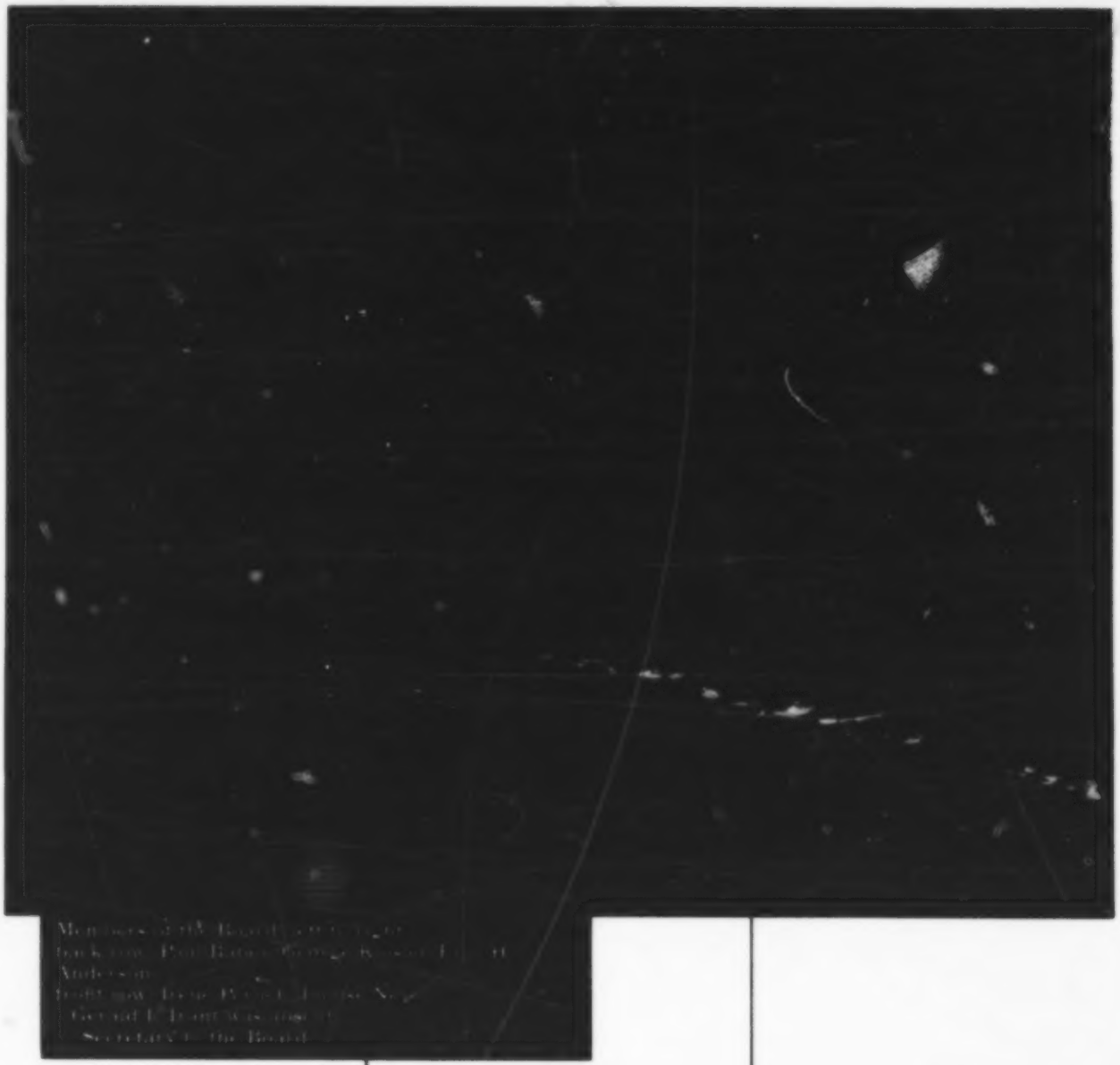
Certain 1985 comparative figures have been reclassified to reflect the presentation adopted in 1986.

Five Year Review

Operational	85-86	84-85	83-84	82-83	81-82
Total loans receivable portfolio					
Number of loans receivable	**78,183**	79,270	80,112	77,609	74,637
Amount of loans receivable ($000)	**5,018,898**	4,992,728	4,917,100	4,291,462	3,847,805
Under Farm Credit Act (including Special Program)					
Number of loans approved	**2,278**	2,316	5,738	5,509	4,948
Amount of loans approved gross ($000)	**246,965**	268,941	779,007	635,568	499,782
Amount of loans approved net ($000)	**237,683**	258,748	758,142	614,370	450,633
Average size of loans approved ($)	**108,413**	116,123	135,763	115,369	101,007
Percentage of loans in good standing	**81.9**	84.7	87.6	88.9	90.6
Under Farm Syndicates Act					
Number of loans approved	**37**	63	92	84	174
Amount of loans approved ($000)	**1,119**	1,584	2,855	2,289	5,569

Financial	85-86	84-85	83-84	82-83	81-82
Revenues and expenses ($000)					
Interest income	**520,595**	527,261	487,260	397,419	337,978
Net interest income	**45,890**	47,279	41,440	34,036	35,220
Administrative expenses	**34,961**	32,086	31,643	28,233	24,350
Provision for loan losses	**133,972**	46,278	65,708	31,758	8,711
Net income (*loss*) before tax & extraordinary item	**—**	(30,178)	(53,395)	(24,459)	3,461
Net income (*loss*) for year	**(121,406)**	(30,178)	(56,714)	(13,208)	1,869
Financial Position ($000)					
Total assets	**5,015,036**	4,940,229	4,901,222	4,300,126	3,853,897
Total liabilities	**5,007,337**	4,811,124	4,770,339	4,136,429	3,700,177
Equity of Canada	**7,699**	129,105	130,883	163,697	153,720
Selected financial indicators					
Debt-to-equity ratio (Loans payable ÷ equity)	**618.06:1**	36.44:1	36.38:1	25.20:1	23.98:1
Asset coverage ratio (*Net tangible assets ÷ loans payable*)	**1.05:1**	1.04:1	1.03:1	1.04:1	1.05:1
Interest coverage ratio (*Total income less operating expenses ÷ interest expense*)	**74.42:1**	.94:1	.88:1	.93:1	1.01:1
Profit margin [*Net income (loss) ÷ total income*]	**−23.25%**	−5.71%	−11.58%	−3.31%	.55%
Return on equity [*Net income (loss) ÷ average equity*]	**−177.49%**	−23.21%	−38.50%	−8.32%	1.28%

Corporate Directory



Members of the Board

The Board of the Corporation is composed of seven members, each of whom is appointed by the Governor in Council. Members are appointed to terms of up to ten years. The Chairman and Vice-Chairman of the Board are also officers of the Corporation. The Chairman is the Chief Executive Officer and as such directs and supervises the operations of the Corporation.

Eiliv H. Anderson*
Chairman of the Board, Chairman and Chief Executive Officer

Paul Babey
Vice-Chairman of the Board, Vice-Chairman and Chief Operating Officer

George Klosler*
Tobacco, grain, ginseng and hog producer, Ontario

Irene Perlich*
Owner and manager of a cow/calf operation, Alberta

Gerald I. Trant*
Senior Assistant Deputy Minister, Agriculture Canada

Two positions were vacant at fiscal year-end.

**Note:*
Members of the Audit Committee.

Advisory Committee

The Advisory Committee is appointed by the Minister of Agriculture to advise him and the Corporation on lending policy matters. The majority of the members must be farmers or representatives of farm organizations.

Don Knoerr
British Columbia

Mack McLaughlin
Alberta

Jean-Marie Bourrée
Saskatchewan

George Vercaigne
Manitoba

Ron Oswald
Ontario

Garnet Rickard
Ontario

Noël Lamontagne
Quebec

Jeannine Caron-Giasson
Quebec

Leon Bremner
New Brunswick

Keith Barrett
Prince Edward Island

Chairmen of Appeal Boards

Appeal Boards composed of practicing farmers of proven ability and judgement are established in each province to hear appeals from farmers who are not satisfied with the Corporation's decision on their loan applications. The Appeal Boards are also available to provide third-party analysis of FCC loans under foreclosure.

E.T. (Ted) Osborn
British Columbia

Gordon Miller
Alberta

Art Missal
Saskatchewan

Robert W. Hopley
Manitoba

Edward J. Mailloux
Ontario

Robert Brochu
Quebec

W. Burris Coburn
New Brunswick

Thomas Meredith
Nova Scotia

Wilbert MacKenzie
Prince Edward Island

Colin Bull
Newfoundland

Head Office

Eiliv H. Anderson
Chairman and Chief Executive Officer

Paul Babey
Vice-Chairman and Chief Operating Officer

Gordon H. Hollingshead
Executive Director

Louise Neveu
Secretary to the Board and Director, Communications

Jean-E. Brassard
Legal Counsel

Brian Strom
Director, Lending Operations

William G. Mann
Comptroller and Chief Financial Officer

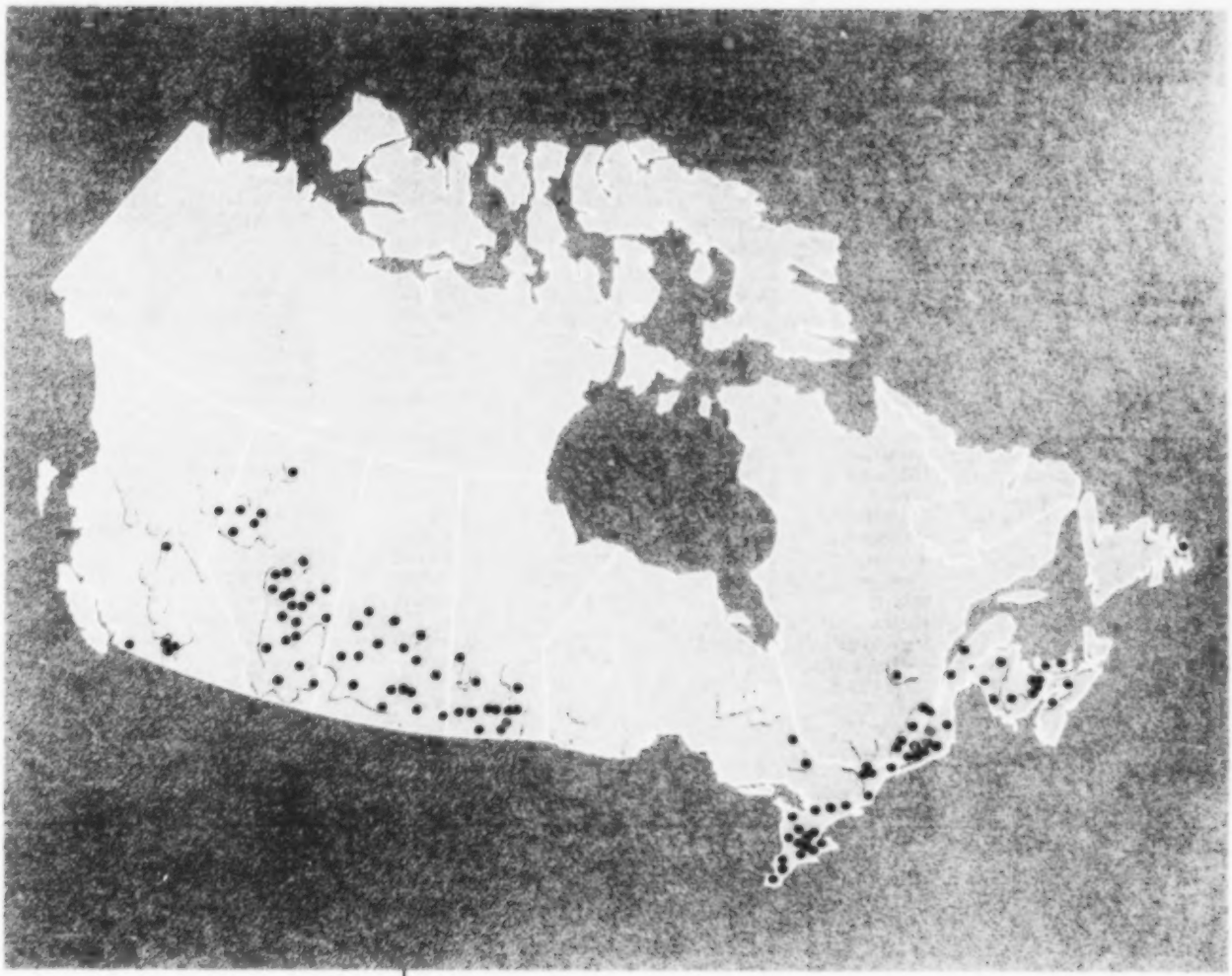
Thomas R. Robertson
Treasurer

Terry Kremeniuk
Director, Corporate Planning

Stewart Given
Director, Management Services

John J. Poirier
Director, Corporate Audit

George Pender
Chief Accountant



Legend

- Head Office
- Regional Offices
- District Offices
- Field Offices
- Major Agricultural Areas

Regional Offices	*British Columbia*	*Alberta*	*Saskatchewan*	*Manitoba*	*Ontario*	*Quebec*	*Atlantic*
Managers	**George Jones*** Suite 200 595 K.L.O. Road Kelowna V1Y 8E7 (604) 762-2416 *Location: Edmonton	Suite 1550 Bank Bldg. 10250-101 Street Edmonton T5J 3P4 (403) 420-4488	**Dave Fraser** 500 South Broad Plaza 2045 Broad Street Regina S4P 2B7 (306) 780-5610	**Russ Holm** 400-5 Donald Street Winnipeg R3L 2T4 (204) 949-4039	**Bob Aumell** 105 Silvercreek Parkway N. Guelph N1H 7G7 (519) 821-1330	**Fabien Langlois** Champlain Bldg. 2700 Laurier Blvd. Ste-Foy G1V 4C7 (418) 648-3993	**John van Abbema** Suite 230 1133 St. George Blvd. Moncton, N.B. E1E 4E1 (506) 857-6595
District offices	Kelowna	Calgary, Grande Prairie, Lacombe, Lethbridge, Vegreville, Westlock	North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Yorkton	Brandon, Portage la Prairie, Winnipeg	Chatham, Guelph, Lindsay, Nepean, North Bay, Walkerton	Cap-de-la-Madeleine, Ste-Foy, St-Hyacinthe, St-Jean, Rock Forest	Charlottetown, Moncton
Field offices	Abbotsford, Dawson Creek, Kelowna, Prince George	Athabasca, Barrhead, Brooks, Camrose, Drumheller, Evansburg, Fairview, Falher, Hanna, High Level, Medicine Hat, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Westaskiwin, Edmonton	Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake, Moose Jaw, Rosetown, Tisdale, Weyburn, Wynyard	Arborg, Carman, Dauphin, Killarney, Morden, Neepawa, Swan River, Virden	Barrie, Campbellford, Cornwall, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Wyoming	Arthabaska, Drummondville, Granby, Hull, Joliette, Rimouski, Rivière-du-Loup, Roberval, St-Georges de Beauce, St-Jérôme, Valleyfield	Bathurst, Grand Falls, Moncton, Woodstock, Fredericton, Sussex, Kentville, Truro, Summerside, St. John's

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Alrick Huebener, FCC
Bolli Hutchinson, Photographic
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Larry Raynard, in-pro inc.

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